

Cash Balance Benefit Program Summary

Program Description

The CalSTRS Cash Balance (CB) Benefit Program is a defined benefit plan that meets the requirements of the Internal Revenue Code. It is optional to school districts, community college districts, or county offices of education as an alternative retirement program. The CB Benefit Program is the primary retirement program for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the FTE for the position.

Eligibility Requirements

Employers may offer the CB Benefit Program to eligible employees. Employers must elect to offer the CB Benefit Program through formal school board action, exclusively, or in addition to other alternative plans and/or Social Security.

When an employer first elects to offer the CB Benefit Program, employees employed to perform creditable service and whose basis of employment (employees' formal contract) is less than 50 percent of the FTE for the position may elect to become participants on the later of: (1) the first day in which creditable service is performed, or (2) the effective date of the employer's governing board's action to provide the CB Benefit Program.

Eligible part-time employees who work for multiple employers may participate in the CB Benefit Program for each employer who offers the program, regardless of DB Program membership. The employee may elect to participate in the CB Benefit Program. In addition, a person is eligible if he/she performs trustee services for an employer who has elected to participate in the CB Benefit Program.

Elections

A member of the DB Program who is otherwise eligible to participate in the CB

Benefit Program may elect to participate in the CB Benefit Program.

Employees have the right to elect coverage under either Social Security, or an alternative plan in lieu of the CB Benefit Program if the employer's governing board's action provides for these options.

An election to participate in either Social Security or an alternative plan does not prevent an employee from electing to participate in the CB Benefit Program at a later date, as long as the CB Benefit Program is provided by the employer and the employee is eligible to participate.

Discontinued Eligibility

Employees shall cease contributing to the CB Benefit Program and become mandatory members of the CalSTRS DB Program when the basis of employment (formal contract) for a specific employer changes to 50 percent or more of full-time for the position. Participation in the CB Benefit Program will also cease when a member elects to become a member of the DB Program, which may occur at any time.

Contributions

Each employer contributes a minimum of 4 percent of salary on behalf of each participating employee. Through the collective bargaining process, employers are permitted to negotiate different levels of employee and employer contributions, as long as the following conditions are met:

- The sum of the employee and employer contributions equals or exceeds 8 percent of employee salary;
- The employee contribution rate may exceed the employer contribution rate but in no event may the employer contribution rate be less than 4 percent;
- The employee and employer contribution rates are the same for each participant employed by the employer;

- The contribution rates as determined under the collective bargaining agreement become effective on the first day of the plan year and remain in effect for at least one plan year;
- The employee and employer contribution rates shall be in one-quarter increments.

Vesting

A participant has an immediate vested right to a retirement benefit equal to the sum of the balance of contributions, including any compounded interest earned on his or her employee and employer accounts.

Program Investments

Contributions to the CB Benefit Program will be invested by CalSTRS in the same manner as other contributions received by CalSTRS, excluding private equity and real estate.

Guaranteed Interest Rate

The CB Benefit Program has a guaranteed interest rate that is determined annually by the Board. The rate is based on the average of 30-year U.S. Treasury notes for the period from March to February immediately preceding the plan year. The interest rate in 2002-03 is 5.5 percent.

Gain And Loss Reserve

Funds accumulate in the Reserve to credit interest to members' employee and employer accounts during years when the rate of return on investments is less than the guaranteed interest rate. Annual additions to the Reserve are determined by the Board on earnings in excess of those needed to credit the guaranteed interest rate and pay administrative costs. The Reserve is also used to ensure adequate funds are available in the Annuity Reserve, which is established to pay monthly annuity payments.

Additional Earnings Credit

After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the Board may declare an additional earnings credit. Any additional earnings credit will be

applied to the balance of the credits in each member's account as of the last day of the plan year; however, the date upon which the additional earnings credit is applied to members' accounts is specified by the Board.

Additional Annuity Credit

After the end of the plan year when the total amount of investment earnings of the plan year are known and the Board has authorized an additional earnings credit to be applied to participants' employee and employer accounts, the Board may also authorize an additional annuity credit. The additional annuity credit shall be based upon the annuity of the participant or beneficiary for the plan year and shall be paid as a lump sum to the participant or beneficiary on the date specified by the Board.

Early Withdrawals

Both federal and state tax codes provide for tax penalties for certain early withdrawals. A 10 percent federal and 6 percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollover

Participants may be permitted to transfer funds from eligible retirement plans into the CB Benefit Program, as long as the transfers are allowable under applicable federal and state income tax laws.

Cash Balance Benefit Program Benefits

Retirement And Disability Benefits

The CB Benefit Program offers a retirement benefit and a disability benefit, if the Board determines the participant has a total and permanent disability. The following options are available for receiving either a retirement or disability benefit:

- ❖ A lump-sum benefit equal to the balance of credits in participant's employee and employer accounts. For retirement only, all of the lump-sum payment may be eligible to roll over into an IRA, defined contribution plan, or other eligible retirement plan that accepts such rollovers.

Or

Participant may choose one of the following five annuities, if participant's account balance is \$3,500 or more:

- Single life annuity with a cash refund feature. Upon the retired participant's death, the balance of the participant's account will be paid in a lump sum to the participant's beneficiary;
- Single life annuity without a cash refund feature. Upon the retired participant's death, no other benefit will be payable to the participant's beneficiary under the CB Benefit Program;
- Joint and 100 percent to beneficiary with "Pop-Up." Upon the retired participant's death, the same monthly amount that was payable to the participant will be paid monthly to the participant's surviving beneficiary. If the participant's beneficiary predeceases the participant, an annuity will be paid to the participant in the form of the single life annuity with a cash refund feature;
- Joint and 50 percent to beneficiary. Upon the retired participant's death, one-half of the monthly allowance will continue to be paid to the participant's beneficiary. If the participant's beneficiary predeceases the participant, an annuity will be paid to the participant in the form of the single life annuity with a cash refund feature;
- Period certain annuity. The annuity will be paid in whole year increments over a period of three to ten years, as specified by the participant. If the participant's death occurs before the end of the period certain, the remaining balance of payments will be paid to the participant's beneficiary.

Reemployment After Retirement

If a participant is employed to perform creditable service subsequent to commencing a monthly annuity:

- ❖ Within one year and prior to age 60, the annuity will be terminated and a credit balance will be applied to the

participant's account. The participant must reapply for subsequent retirement;

- ❖ After one year and age 60 or older, the annuity will continue and new contributions will be credited to the new participant's account. The participant must apply for subsequent retirement on the basis of the new account.

Retirement Eligibility

Normal retirement age is 60 and a participant may not retire earlier than age 55. To retire, a participant must terminate all creditable service in the CB Benefit Program and the DB Program and apply for a retirement benefit. Distribution of a retirement benefit must begin by age 70-1/2, unless the participant continues to perform creditable service.

Disability Eligibility

A participant may apply for disability at any time. All creditable service subject to coverage by the CB Benefit and DB Programs must be terminated prior to the disability date. A disability benefit will become payable only upon determination by the Board that the participant has a total and permanent disability.

Death Benefit

Death of Participant Prior to Retirement

Normal distribution is a lump-sum benefit. The sum of the balance of credits of the participant's employee and employer accounts is payable to the named beneficiary. If no valid beneficiary is designated, the lump-sum payment will be paid to the participant's estate.

Beneficiaries

A participant's beneficiary may elect to receive the benefit in the form of an annuity, provided the sum of the balance of credits in the participant's account equals or exceeds \$3,500. The beneficiary may elect either a single life annuity without a cash refund feature, or a period certain annuity.

Death of Participant Receiving Annuity

Benefit payable in accordance with the form of annuity elected by participant.

Termination Benefit (Refund)

Upon termination of all creditable service subject to coverage by the Plan, for any reason other than death, disability, or retirement, a participant may apply for a lump-sum termination benefit. The benefit amount is equal to the sum of the employee and employer accounts, plus compounded interest as of the date the benefit is paid.

Waiting Period

The termination benefit is payable after one year has elapsed following the date of termination of employment. The application for the termination benefit will be automatically canceled if the participant performs creditable service within one year following the date of termination of employment.

Five-Year Rule

A participant may not apply for a termination benefit if less than five years has elapsed following the date that the most recent termination benefit was distributed to the participant.

Reemployment After Retirement

If the retiree is receiving an annuity for less than one year and becomes reemployed to perform creditable service under the CB Benefit Program prior to 60 years of age or after 60 years of age and within one year of his/her retirement date, the annuity must be terminated and the employee and employer accounts shall be credited with the respective balances that reflect the actuarial equivalent of the participant's retirement benefit as of the date of the reemployment.

If the retiree is receiving an annuity and becomes reemployed to perform creditable service under the CB Benefit Program on or after 60 years of age and has been receiving the annuity for at least one year, the annuity shall continue and the employee and employer contributions for the creditable service shall be made to the CB Benefit Program and shall be credited to new employee and employer accounts established on behalf of the participant.